APPENDIX A

Revenue Act of 1936, c. 690, 49 Stat. 1648:

SEC. 201(a). DEFINITION.—When used in this title the term "life insurance company" means an insurance company engaged in the business of issuing life insurance and annuity contracts (including contracts of combined life, health, and accident insurance), the reserve funds of which held for the fulfillment of such contracts comprise more than 50 per centum of its total reserve funds.

SEC. 203(a). GENERAL RULE.—In the case of a life insurance company the term "net income" means the gross income less—

(2) RESERVE FUNDS.—An amount equal to 4 per centum of the mean of the reserve funds required by law and held at the beginning and end of the taxable year, except that in the case of any such reserve fund which is computed at a lower interest assumption rate, the rate of 3¾ per centum shall be substituted for 4 per centum. Life insurance companies issuing policies covering life, health, and accident insurance combined in one policy issued on the weekly premium payment plan, continuing for life and not subject to cancellation, shall be allowed, in addition to the above, a deduction of 3¾ per centum of the mean of such reserve funds (not required by law) held at the beginning and end of the taxable year, as the Commissioner finds to be necessary for the protection of the holders of such policies only.

Treasury Regulations 94:

ART. 201(a)—1. *Life insurance companies: Definition.* The term "life insurance company" as used in Title I is defined in section 201(a). In determining whether an insurance company is a "life insurance company" as defined in section 201(a), no reserve shall be regarded as held for the fulfillment of an insurance contract unless it conforms to the definition of "reserve" contained in article 203(a)(2)—1.

ART. 203(a) (2)—1. *Reserve funds.*—In general, the reserve contemplated is a sum of money, variously computed or estimated, which, with accretions from interest, is set aside (reserved) as a fund with which to mature or liquidate, either by payment or reinsurance with other companies, future unaccrued and contingent claims. It must be required either by express statutory provisions or by rules and regulations of the insurance department of a State, Territory, or the District of Columbia when promulgated in the exercise of a power conferred by statute, but such requirements, without more, is not conclusive; for example, it does not include reserves required to be maintained to provide for the ordinary running expenses of a business definite in amount, and which must be currently paid by every company from its income if its business is to continue, such as taxes, salaries, reinsurance and unpaid brokerage; the reserve or net value of risks reinsured in other solvent companies to the extent of the reinsurance; reserve for premiums paid in advance; annual and deferred dividends; accrued but unsettled policy claims; losses incurred but unreported; liability on supplementary contracts not involving life contingencies; estimated value of future premiums which have been waived on policies after proof of total and permanent disability.

In any case where reserves are claimed, sufficient information must be filed with the return to enable the Commissioner to determine the validity of the claim. Reference should be made to the item in which the reserve appears in the annual statement and to the statute or insurance department ruling requiring that such reserves be held. Only reserves which are so required, which are peculiar to insurance companies, and which are dependent upon interest earnings for their maintenance will be considered. A company is permitted to make use of the highest aggregate reserve called for by any State or Territory or the District of Columbia in which it transacts business, but the reserve must have been actually held.

APPENDIX B

Michigan Compiled Statutes 1939 c. 242— General Insurance Law

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Part One, C. II.

Annual statement by company; forms, preparation by commissioner, contents. SEC. 7. It shall be the duty of each and every insurance company, foreign or domestic, transacting business within this state, annually, on or before March first (1st), to prepare under oath, and deposit with the commissioner of insurance, a statement concerning its affairs upon such form and including such information as shall be prescribed by the commissioner of insurance. It shall be the duty of the commissioner to prepare such forms of statements, as shall be suitable and adaptable to each kind or class of insurance authorized by this act. The commissioner of insurance is hereby authorized and directed to include in such forms, requisitions for informaton upon any and all important elements of such business, including any matter, condition or requirement regulated by this act. (C.L. '29, S12255.)

Part Three, c. I, Subdivision One

Number of corporators; kinds of insurance; reinsurance; combination companies; application of act. SEC. 2. Thirteen (13) or more persons may become a corporation for the purpose of making any of the following kinds of insurance:

Life. First, Upon the lives and health of persons and every insurance pertaining thereto, and to grant, purchase or dispose of annuities;

Fidelity, surety. Second, To guarantee the fidelity of persons in positions of trust, private or public, and to act as surety on official bonds and for the performance of other obligations, and to indemnify banks, bankers, brokers,

financial or moneyed associations, or financial or moneyed corporations, against the loss of any bills of exchange, notes, drafts, acceptances of drafts, bonds, securities, evidences of debt, deeds, mortgages, documents, currency and money, except that no such contract or indemnity indemnifying banks, bankers, brokers, financial or moneyed associations or financial or moneyed corporations shall indemnify against loss caused by marine risks, or risks of transportation or navigation.

Steam boiler and fly wheel. Third, To insure against loss or damage to property of the assured, and loss or damage to the life, person or property of another for which the assured is liable, caused by the explosion of steam boilers or their connections or by the breakage or rupture of machinery or fly wheels; and against loss of use and occupancy caused thereby;

Accident and health. Fourth, To insure any person against bodily injury or death by accident, or against disability on account of sickness;

Automobile and vehicle; public liability, etc. Fifth, To insure any person, firm or corporation against loss or damage on account of the bodily injury or death by accident to any person, or against damage caused by automobiles, vehicles or draft animals to property of another, for which loss or damage said person, firm or corporation is responsible, or against accidental damage sustained by automobiles or vehicles, or against all of the said contingencies, inclusive of workmen's compensation insurance;

Plate glass. Sixth, To insure against a breakage of plate glass, local or in transit;

Sprinkler and other water damage. Seventh, To insure any goods or premises against loss or damage by water caused by the breakage or leakage of sprinklers, pumps, water pipes or plumbing and its fixtures, and against accidental injury from other causes than fire or lightning to such sprinklers, pumps, water pipes, plumbing and fixtures;

Credit. Eighth, To carry on the business commonly known as credit insurance or guaranty, either by agreeing to purchase uncollectible debts, or otherwise to insure against loss or damage from the failure of persons indebted to the assured to meet their liabilities;

Title. Ninth, To examine titles to real and personal property, furnish information relative thereto, and insure owners and others interested therein against loss by reason of encumbrances or defective title;

Burglary and theft. Tenth, To insure against loss or damage by burglary, theft or house breaking;

Livestock. Eleventh, Upon the lives of horses, cattle and other livestock or against loss by the theft of any of such property or both;

Burial. Twelfth, To insure any person a funeral benefit payable at death;

Malpractice. Thirteenth, To insure persons, firms or corporations lawfully engaged in the practice of medicine, surgery, dentistry, operation of hospitals, sanitariums or dispensing drugs or medicines against loss resulting from all claims and suits alleging malpractice, error or mistake and based upon professional services rendered or which should have been rendered by insured and/or his or her assistants or employees, and to defend and indemnify insured against any loss resulting from all other suits for civil damages arising out of the practice by insured of his profession; except that indemnity under such insurance shall not extend to claims or suits based on criminal acts or on services rendered while under the influence of liquor or drugs.

Special forms. Fourteenth, By and with the consent of the commissioner of insurance, to insure against any other hazards of a casualty nature not prohibited by the laws of this state nor exclusively delegated to any other class or kind of company.

Reinsurance privileges. Every company organized under this chapter shall have an authority to reinsure any risk authorized to be undertaken by them, and to grant reinsurance upon any similar risk undertaken by any other company, but shall not have power to undertake marine and fire risks or any other species of insurance whatever than that specified in some one (1) or more of the foregoing subsections; but a corporation may be formed for the combined purposes specified in the first (1st) and fourth (4th) subsections; or, upon compliance with the requirements of subdivision two (2) of this chapter, for all the purposes combined, or any two (2) of more of them specified in the third (3rd), Fourth (4th), fifth (5th), sixth (6th), seventh (7th), eighth (8th), ninth (9th), tenth (10th), eleventh (11th), thirteenth (13) and fourteenth 14th) sub-sections. A life insurance company may insure against the death of the insured by accident or against disability on account of accident or sickness, but against no other contingency specified in any sub-division of section two (2) of this chapter, unless engaged in insuring against such other contingency in this state prior to the first (1st) day of January in the year nineteen hundred nine (1909). The provisions of this chapter shall apply to any company heretofore organized, or that may hereafter be organized under this provision, for any and all of the purposes above specified. (C. L. '29, S12380.)

Part Three, c. I, Subdivision Three.

Annual valuation of life insurance companies; valuation by another state, acceptance; deficiency in assets, suspension of rights; change in standards; mortality table. SEC. 10. Every company doing a business of life insurance within this state shall annually prior to March first (1st), furnish the commissioner of insurance the data necessary for the valuation of all its outstanding policies to be made by the commissioner of insurance, or under his authority, and in making such valuation, the rate of interest to be assumed shall, after and including the year eighteen hun-

dred ninety-six (1896), be four (4) per centum per annum, and at the election of any such insurance company such rate of four (4) per centum shall be assumed any year prior to eighteen hundred ninety-six (1896), and the rate of mortality shall be that established by the "American experience life table," as shown in the schedule hereto annexed, and such company shall pay the commissioner of insurance, as a compensation for such estimate, one (1) cent for each thousand (1000) dollars insured: * * * The commissioner of insurance may, upon written application of the company, vary the standards of mortality and interest required by this section, value policies in groups, use approximations and accept the valuation of the department of insurance of any other state in place of the valuation required by this act; nothing in this paragraph shall be construed as permitting the use of standards of mortality and interest or methods of producing aggregate reserves lower than those based upon the standard prescribed by this section; said policies shall be valued in accordance with the terms of the policy contracts. In every case in which the actual premium charged for an insurance is less than the net premium for such insurance, based upon the American experience table of mortality with interest at the rate of four (4) per centum, then and not otherwise the company shall also be charged with the value of an annuity, the amount of which shall be equal to the difference between the premium charged and the net premium for such insurance based upon the American experience table with interest at the rate of four (4) per centum and the term of which in years shall equal the number of future annual payments due on the insurance at the date of valuation. (C.L. '29, S12397.)

Part Three, c. I, Subdivision Four

Corporation to insure against loss of position by railway employees, accidents, disability, life, health and to deal in annuities; incorporators. SEC. 14. Any number of persons, not less than thirteen (13), may associate together and

form an incorporated company for the following purposes, to-wit:

First, To insure railway employees against loss of position resulting from discharge or retirement;

Second, To insure any person against bodily injury or death by accident, or against disability on account of sickness;

Third, To insure the lives and health of persons and every insurance pertaining thereto, and to grant, purchase or dispose of annuities. (C.L. '29, S12402.)

Same; law applicable. SEC. 16. Such provisions of this part as are not inconsistent with, or in conflict with provisions of this subdivision are hereby made applicable to the operation of any company organized under the provisions of this sub-division. (C.L. '29, S12404.)

Part Three, c. II, Subdivision Two

Life insurance policy; mandatory provisions. SEC. 3. No policy of life insurance shall be issued in this state, unless the same shall contain the following provisions:

Premiums in advance. First, A provision that all premiums shall be payable in advance, either at the home office of the company or to an agent of the company, upon delivery of a receipt signed by one or more of the officers who shall be named in the policy;

Grace. Second, A provision for a grace of one (1) month for the payment of every premium after the first (1st) year, which may be subject to an interest charge, during which month the insurance shall continue in force, which provision may contain a stipulation that if the insured shall die during the month of grace the over due premium will be deducted in any settlement under the policy;

Entire contract; incontestability. Third, A provision that the policy, together with the application therefor, a copy of which application shall be endorsed upon or at-

tached to the policy and made a part thereof, shall constitute the entire contract between the parties and shall be incontestable after it shall have been in force during the lifetime of the insured for two (2) years from its date, except for non-payment of premiums and except for violations of the policy relating to naval and military services in time of war, and at the option of the company provisions relative to benefits in the event of total and permanent disability and provisions which grant additional insurance specifically against death by accident may also be excepted;

Statements deemed representations. Fourth, A provision that all statements made by the insured, shall, in the absence of fraud, be deemed representations and not warranties, and that no such statement shall avoid the policy unless it is contained in a written application and a copy of such application shall be endorsed upon or attached to the policy when issued;

Understatement of age. First, A provision that if the age of the insured has been understated, the amount payable under the policy shall be such as the premium would have purchased at the correct age;

Participation in surplus. Sixth, A provision that the policy shall participate in the surplus of the company, and that, beginning not later than the end of the fifth (5th) policy year, the company will determine and account for the portion of the divisible surplus accruing on the policy, and that the owner of the policy shall have the right to have the current dividend arising from such participation paid in cash, and that at periods of not more than five (5) years such accounting and payment at the option of the policy-holder shall be had. This provision shall not be required in non-participating policies;

Loans. Seventh, A provision that after three (3) full year premiums have been paid, the company at any time, while the policy is in force, will advance, on proper assignment of the policy and on the sole security thereof, at a specified rate of interest, a sum equal to, or at the option

of the owner of the policy, less than the reserve at the end of the current policy year on the policy and on any dividend additions thereto, specifying the mortality table and rate of interest adopted for computing such reserve, less a sum not more than two and one-half (2½) per centum of the amount insured by the policy and of any dividend additions thereto; and that the company will deduct from such loan value any existing indebtedness on the policy and any unpaid balance of the premium for the current policy year, and may collect interest in advance on the loan to the end of the current policy year; which provision may further provide that such loan may be deferred for not exceeding six (6) months after the application therefor is made. It shall be further stipulated in the policy that failure to pay any such advance or to pay interest shall not void the policy unless the total indebtedness thereon to the company shall equal or exceed such loan value at the time of such failure nor until one (1) month after notice shall have been mailed by the Company to the last known address of the insured and of the assignee, if any. No condition other than as herein provided shall be exacted as a prerequisite to any such advance. This provision shall not be required in term insurances:

Default in premium payments. Eighth, A provision which, in event of default in premium payments, after premiums shall have been paid for three (3) years, shall secure to the owner of the policy a stipulated form of insurance, the net value of which shall be at least equal to the reserve at the date of default on the policy and on any dividend additions thereto, specifying the mortality table and rate of interest adopted for computing such reserves, less a sum not more than two and one-half (2½) per centum of the amount insured by the policy and of any existing dividend additions thereto, and less any existing indebtedness to the company on the policy. Such provision shall stipulate that the policy may be surrendered to the company at its home office within one (1) month from date of default for a specified cash value at least equal to the sum

which would otherwise be available for the purchase of insurance as aforesaid and may stipulate that the company may defer payment for not more than six (6) months after the application therefor is made. This provision shall not be required in term insurances of twenty (20) years or less;

Table of loan values. Ninth, A table showing in figures the loan values, and the options available under the policies each year upon default in premium payments, during at least the first twenty (20) years of the policy, beginning with the year in which such value and options become available;

Default in premium; purchase of other insurance; reinstatement. Tenth, A provision that if, in event of default in premium payments, the value of the policy shall be applied to the purchase of other insurance and if such insurance shall be in force and the original policy shall not have been surrendered to the company and canceled, the policy may be reinstated within three (3) years from such default, upon evidence of insurability satisfactory to the company and payment of arrears of premiums with interest;

Settlement of claim. Eleventh, A provision that when a policy shall become a claim by the death of the insured, settlement shall be made upon receipt of due proof of death, or not later than two (2) months after receipt of such proof;

Installments. Twelfth, A table showing the amounts of installments in which the policy may provide its proceeds may be payable;

Title. Thirteenth, A title on the face and on the back of the policies correctly describing the same.

Single premium policies. Any of the foregoing provisions or portion thereof relating to premiums not applicable to single premium policies, shall to that extent not be incorporated therein. (C.L. '29, S12427.)

Part Three, c. II, Subdivision Four

Policy violating chapter; effect. SEC. 20. A policy issued in violation of this chapter shall be held valid but shall be construed as provided in this chapter and when any provision in such policy is in conflict with any provision of this chapter the rights, duties and obligations of the insurer, the policy holder and the beneficiary shall be governed by the provisions of this chapter. (C.L. '29, S12447.)

Part Three, c. II, Subdivision Five

Business deemed life insurance companies; policy limitations; solicitations before deposit of securities, penalty, recovery of premium. SEC. 29. That all corporations, associations, partnerships, or individuals, doing business in this state under any charter, compact, agreement, or statute of this or any other state, involving an insurance, guaranty, contract, or pledge, for the payment of annuities or endowments, or for the payment of moneys to families, or representatives of policy or certificate holders or members, shall be considered and deemed to be life insurance companies within the meaning of the laws relating to life insurance within this State, * * * (C.L. '29, S12456.)